

Role of Linkage Banking in the Expansion of Financial Services Savings and Credit Cooperative Societies (SACCOS) Banking

A case study of Three SACCOS in Moshi District

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Abstract

Linkages banking practices between SACCOS and commercial banks are intended to transform the less formal institutions by embracing their lending capacities and procedures. The study of three employee based SACCOS in Moshi district in Tanzania showed that so far linkages have not improved the performance of SACCOS partnered with commercial banks. It has instead led to low performance as reflected by increases in loans to savings status, interest on average outstanding loans, total operating costs level relative to outstanding loans and tends to lower surplus to average loans ratio. This paper recommends establishment of a maximum level for SACCOS borrowing for on-lending basing on savings rather core capital and evaluation of transaction costs by SACCOS before entering into linkage relationship.

Key words: Performance, SACCOS, linkage banking, sustainability